U.S. Steel Processors for Free Trade
Toledo, Ohio - Warren, Michigan

January 4, 2002

Mr. Andrew Stephens
Office of Industry
Office of the United States Trade Representative
600 17th Street, NW, Room 501
Washington, DC 20508

Re: Steel Safeguard Investigations (Hot-Rolled Carbon Steel Bar)
Comments on Proposed Safeguard Actions

These comments are submitted for consideration by the Trade Policy Staff Committee by United States manufacturers of cold finished carbon steel bar ("the Commenting Companies"). The Commenting Companies are U.S. manufactures opposed to the imposition of tariffs or unreasonable quotas on imports of hot-rolled carbon steel bar in the ongoing steel safeguard proceedings.

A. Summary: Trade Protections Will Cause Great Harm to U.S. Manufacturers and the U.S. Economy, Far Overshadowing Any Benefit to U.S. Steelmakers

The Commenting Companies are independent U.S. manufacturers of cold-finished steel bar, largely in free-machining grades, which is in turn processed by numerous downstream customers into components for countless automotive, aerospace, and other manufacturing applications. The Commenting Companies are dependent on a stable supply of hot-rolled steel bar as their primary raw material. The Commenting Companies purchase from both U.S. and foreign producers of hot-rolled steel bar. Foreign sources are essential because U.S. manufacturers of free-machining hot-rolled bar cannot produce either the quantity or the quality needed to meet the demand.

The Commenting Companies and their downstream customers are an important and substantial component of the U.S. economy and industrial base. These companies take relatively lower-value raw steel bar and process it into high-value products that occupy the very heart of America's industrial production, and in particular the automotive parts industry. These companies employ nearly 60 workers for every one worker in the steel manufacturing industry, and a good portion of those downstream jobs would be put at risk if protectionist safeguard policies were put into place. The U.S. cold finished bar producers have already been found by the ITC to be suffering economic injury, and indeed the TPSC is separately considering safeguard measures in favor of the cold finishers. The TPSC should not at the same time advocate actions that would actively harm these producers. Import relief that would damage downstream value-added production in an attempt to favor the relatively smaller U.S. steelmaking segment would be bad policy.

Appropriate adjustment assistance is the only reasonable safeguard measure that would not do more harm than good. Well-focused assistance to address actual inefficiencies in otherwise sound steelmaking companies, or to assist inefficient producers to phase out or move into other more appropriate operations, is the only right way to help the U.S. steelmakers compete on a world market. However, if any trade action is considered, it should be limited only to reasonable quotas. If imposed, quotas must set at levels that will permit the U.S. consuming industries to obtain their essential hot-rolled steel bar supply.

Tariffs are the worst possible alternative. Tariffs would increase the Commenting Companies' cost of manufacturing drastically, since their only input material is hot-rolled carbon steel bar. However, the downstream customers, who are U.S. manufacturers of components and parts, would be unable to pass such increased prices on to their customers, because the end users would outsource their component needs to China or other lower-cost alternatives. Thus, tariffs would price U.S. downstream producers out of the end-use market.

B. Discussion: U.S. Cold Finishing Companies and Their Downstream Customers Would Be Greatly Harmed by the Proposed Safeguard Actions

1. Imported Free-Machining Hot-Rolled Bar Is an Essential Material Input for the U.S. Cold Finishing Industry and Domestic Producers Cannot Supply the Domestic Demand

The Commenting Companies and other U.S. cold finishers purchase and process hot-rolled carbon steel bar into cold finished bar. The majority of the steel grades involved are "free-machining" grades, i.e., specially formulated with lead or other additives to permit easy machinability as compared to other types of carbon steel. Free-machining grades represent less than ten percent of hot-rolled carbon steel bar imports, and require specialized manufacturing practices to produce. Imports of high quality hot-rolled free-machining bar are essential to ensure a stable supply of this vital raw material.

The cold finishing bar manufacturers and their customers take relatively lower value hot-rolled steel bar, and employ a variety of finishing, machining, cutting and forging processes to manufacture very high-value added components, parts, and fasteners. The output of these U.S. companies is an essential part of the input needs of U.S. automakers, aerospace manufacturers, appliance producers, heavy equipment builders, and other core manufacturing sectors.

These end-use consumers of the various parts and components made from the cold-finished bar produced by the Commenting Companies purchase on the world market. Most of them are very large companies with a worldwide reach. They will obtain their components from whatever source worldwide meets their needs, and they will seek the lowest-cost supplier. Thus, if the safeguard actions increase the prices that must be charged by the Commenting Companies and their downstream customers, the end-use components purchasers will simply cancel their orders from U.S. sources, and will obtain their components supply from China or another low-cost overseas parts supplier – in countries with access to lower-priced steel bar inputs. Such an event would devastate the U.S. cold finished bar producers and their downstream customers.

Imports of hot-rolled bar are essential to the cold finishing industry because the U.S. producers cannot satisfy the demand. There are only three producers of leaded free-machining steel bar in the United States. However, two of the three U.S. producers, Nucor and RTI, consume their output of hot-rolled bar in their own production of cold finished bar. Only Ispat Inland does not produce cold-finished bar from its hot-rolled production. Thus, only Ispat Inland is not a direct competitor of the Commenting Companies and other independent U.S. cold finishers. (Ispat Inland, in fact, does not produce any steel for hot-rolled bar production in the United States, but imports all its billet from Germany.) Since Ispat Inland does not have the capacity to supply all the requirements of the independent cold-finished bar producers, the independent producers would be dependent on their competitors for hot-rolled bar supply if import alternatives were cut off.

Moreover, the Commenting Companies could not readily shift from imported sources to domestic sources of steel, even if the quantity were available. Their downstream customers use the product in highly technical, demanding applications, and thus demand a highest quality product to strict specifications. This is not a fungible commodity product for which any producer's output can be considered identical and interchangeable, but is a very highly engineered product where consistency and quality is essential. Indeed, a number of the Commenting Companies' major U.S. customers specify that they will purchase their cold-finished bar only if it is produced from a specified import source (i.e., from Corus in the U.K.). Thus, the availability of imported hot-rolled bar is essential to the viability of the Commenting Companies and their downstream customers.

2. The Proposed Safeguard Measures Would Disrupt the Supply of Hot-Rolled Carbon Steel Bar, Causing Serious Harm to U.S. Cold Finishers and Components Manufacturers

Since a stable supply of hot-rolled steel bar necessarily requires available quantities of imported bar, any measures which reduce the availability or increase the price beyond the reach of these U.S. cold finished bar manufacturers would directly threaten the entire industry. The Commenting Companies, and the cold finished bar producers in general, would be gravely harmed by the proposed safeguard actions advocated by some members of the International Trade Commission, and under review now by the TPSC.

The ITC's suggested remedies for hot-rolled carbon steel bar included initial tariffs ranging from 20 percent to 35 percent, or initial quotas of less than 2 million tons. The Commenting Companies are strongly opposed to these proposals.

If supply becomes tight or if prices rise dramatically, the cold-finishers' downstream customers would find it impossible to supply their OEM or component manufacturer customers at competitive prices. The OEMs and component manufacturers would then be forced to look overseas for their supply. That would create a cycle where the higher value added product then becomes sourced overseas, and the Commenting Companies' downstream customers, and in turn, their customers, lose business. In such a scenario, high-paying U.S. jobs would disappear, and vital value-added manufacturing capability would be lost to imports.

Protectionist policies in favor of the raw material producers (like the steelmakers) helps a narrow segment of the economy at the low value-added end of the economic chain, but it can greatly injure the higher value-added downstream industries, with ultimately a much more disastrous shift of jobs and economic activity to overseas sources. Import restrictions might offer an attractive short-term benefit to the steelmaking industry, but they would cause devastating long term injury to a much broader, and economically more valuable, segment of the economy.

In the end, protectionist trade restrictions would be futile, and the sacrifice extracted from the larger economy would be wasted. The final effect would be that even the domestic steel industry jobs that the safeguard measures are supposed to protect would be lost. By making the raw material supply uncompetitive, much of the domestic precision parts and components industry would be replaced by import competition, with the result that there would be a much smaller precision parts market in the United States for the U.S. steelmakers to sell steel to. This scenario cannot be allowed to occur: an adequate supply of fairly traded imports of hot-rolled carbon steel bar must be maintained.

3. Adjustment Assistance Is the Only Appropriate Remedy; Tariffs or Restrictive Quotas Would Cause Disruption and Downstream Injury

Imports have fallen dramatically from the levels in past years which domestic producers argued were injurious. Some U.S. hot-rolled bar producers have already undergone a process of rationalization and modernization that has made them viable. These efficient producers need no safeguard assistance.

Any relief therefore should be targeted at those remaining inefficient producers who could be restored to profitability with reasonable rationalization and investment. This can only be accomplished by specific adjustment assistance, not by general import restrictions. The ITC failed to consider adjustment assistance, but the TPSC should recommend to the President only non-import measures, such as tax benefits, additional exemptions, assistance with compliance with environmental laws or direct financial aid with legacy costs or modernization. Import restrictions, such as tariffs and quotas, cannot be targeted to those companies needing assistance, and would wreak havoc in the economy.

However, even targeted adjustment assistance relief must not have the effect of maintaining in operation mills that are inefficient and uncompetitive. Rather, for such companies, the adjustment assistance should be designed to facilitate the orderly withdrawal from the market of such uncompetitive production, including retraining, retooling, or site restoration. Artificially preserving inefficient capacity could create an excess of supply and a depression of market prices to the detriment of the efficient producers.

As to tariffs and quotas, the proposals advanced by the various members of the ITC, the Commenting Companies strongly believe that tariffs at the levels proposed are the worst possible alternative. Tariffs would result in sharp increases in the price of imported hot-rolled bar, which would increase the cold finishers' cost of manufacturing drastically, since their only material input is hot-rolled carbon steel bar. The cold finishers selling prices would then be forced upwards as well, but as noted above, such price increases could not be absorbed by the market. The downstream customers, i.e., U.S. manufacturers of components and precision parts, would be unable to pass the price increase on to their OEM customers. Tariffs would price the domestic precision parts manufacturers out of the market, resulting in widespread imports of finished components and parts, and massive exports of jobs and productive capacity.

Quotas at the levels proposed by the ITC would be little better. Given the inability of U.S. steelmakers to produce hot-rolled bar in the qualities and quantities required by the cold finishing industry and their customers, quotas at insufficient levels would create shortages and restrict supply, thus forcing the price upward just as tariffs would, with the same devastating effect on the downstream industries.

Economic studies show that proposed tariff and quota measures would cause economic losses to downstream consumers of steel that would be many times greater than the supposed benefit to the U.S. steel manufacturers. The Commenting Companies note that there are roughly 57 jobs in downstream industries using raw steel like hot-rolled bar for every one job in steelmaking. Moreover, at least eight of those high value-added, downstream jobs would be sacrificed for every single steelmaking job saved through protectionist policies. Moreover, the cost to the U.S. economy would be over $400,000 per year for every steelmaking job saved through tariffs or low quotas. See "Estimated Economic Effects of Proposed Relief Remedies for Steel," December 19, 2001, previously submitted by The Consuming Industries Trade Action Coalition (CITAC).

Thus trade restrictions are an inappropriate and harmful means of addressing the concerns of the U.S. steelmakers. Remedies should be limited to adjustment assistance. However, if instead any import relief is to be adopted, it must be limited to quotas set at a realistic level. Moreover, within the broad heading of hot-rolled carbon steel bar imports from European sources, a separate quota should be established for free-machining grades of hot-rolled carbon steel bar, to ensure that non free-machining commodity-quality bar and free-machining special-quality bar are separately accounted for. (Free-machining grades are imported under a separate tariff category.) In each category, the quota should be set at no less than the average quantities imported over the past three years.

Respectfully submitted,

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